

VZCZCXRO0847
RR RUEHGH
DE RUEHIN #3985/01 3330321
ZNR UUUUU ZZH
R 290321Z NOV 06
FM AIT TAIPEI
TO RUEHC/SECSTATE WASHDC 3219
RUEATRS/DEPT OF TREASURY WASHDC
INFO RUCPDOG/USDOC WASHDC
RUEHBK/AMEMBASSY BANGKOK 3490
RUEHBJ/AMEMBASSY BEIJING 6001
RUEHUL/AMEMBASSY SEOUL 8284
RUEHGP/AMEMBASSY SINGAPORE 6697
RUEHKO/AMEMBASSY TOKYO 8252
RUEHML/AMEMBASSY MANILA 9850
RUEHJA/AMEMBASSY JAKARTA 3950
RUEHKL/AMEMBASSY KUALA LUMPUR 3599
RUEHHI/AMEMBASSY HANOI 3165
RUEHBY/AMEMBASSY CANBERRA 4378
RUEHWL/AMEMBASSY WELLINGTON 1626
RUEHHK/AMCONSUL HONG KONG 7225
RUEHGH/AMCONSUL SHANGHAI 0576
RUEHGZ/AMCONSUL GUANGZHOU 9759

UNCLAS SECTION 01 OF 02 TAIPEI 003985

SIPDIS

SIPDIS

STATE PLEASE PASS USTR
STATE FOR EAP/RSP/TC, EAP/EP
USTR FOR ALTBACH
USDOC FOR 3132/USFCS/OIO/EAP/WZARIT
TREASURY FOR OASIA/LMOGHTADER
TREASURY ALSO PASS TO FEDERAL RESERVE/BOARD OF
GOVERNORS, AND SAN FRANCISCO FRB/TERESA CURRAN

E.O. 12958: N/A

TAGS: [EINV](#) [EFIN](#) [EIND](#) [ECON](#) [PINR](#) [TW](#)

SUBJECT: Another Taiwan-PRC Rumor Bites the Dust

REF: Taipei 2695

11. SUMMARY: Local and international media have erroneously reported Advanced Semiconductor Engineering (ASE) would be freed for China investments if Carlyle Group acquires and de-lists ASE from the Taiwan stock exchange. In fact, Taiwan's 40% ceiling on investment in China applies to all companies registered in Taiwan, whether or not they are listed. However, this acquisition plan is an example of the surging foreign investment into Taiwan and the impact of allowing foreign investors to use cheap local funds to finance direct investment here. END SUMMARY.

Planned Acquisition

12. On November 26, Carlyle Group, a U.S. private equity fund, announced plans to acquire Taiwan's Advanced Semiconductor Engineering (ASE), the world largest chip packaging firm, by purchasing ASE shares from the Taiwan Stock Exchange (TSE). Carlyle set its purchase price at NT\$39 (US\$1.18 at the exchange rate of NT\$33 per US Dollar) per share, higher than prevailing market price of NT\$35.5 (US\$1.07). The total acquisition cost is estimated at NT\$180 billion (US\$5.45 billion). Carlyle announced that after acquiring majority equity in ASE it will de-list ASE from the TSE.

Not a Way to Circumvent PRC Investment Limits

13. Local and international media have incorrectly reported that Carlyle's acquisition is designed to permit ASE to circumvent Taiwan's restrictions on investment in China. These media reports incorrectly imply that once ASE is de-listed from the TSE, it is no longer subject to a 40% of net worth limit on investment in the PRC.

Registration vs. Listing

¶4. In fact, Taiwan's PRC investment limits apply to all companies registered in Taiwan, not just listed companies. Companies registered in Taiwan are subject to the restrictions even though foreign ownership reaches 100%.

Requirements and Restrictions

¶5. Article 35 of the Taiwan's Cross-Strait People Relations Act specifically requires Taiwan companies to obtain permits for their investment in China. Based on this article, the Ministry of Economic Affairs (MOEA) has set the Regulations Governing Investment in and Technical Cooperation with China. Requirements and restrictions are as follows:

¶6. Taiwan companies shall report their investment projects to the MOEA Foreign Investment Commission (FIC) if their investment is below US\$200,000. If the investment exceeds US\$200,000, investors shall obtain prior permits from the FIC and their projects are subject to following limits:

¶7. For individual persons and small and medium enterprises (SMEs) defined as companies with paid-in capital below NT\$80 million, total investment in China may not exceed NT\$80 million (US\$2.4 million).

¶8. For enterprises with paid-in capital exceeding NT\$80 million, total investment in China below NT\$5 billion (US\$151.5 million) may not exceed 40% of the net worth or NT\$80 million, whichever is higher.

¶9. For projects with investment ranging from NT\$5 billion to NT\$10

TAIPEI 00003985 002 OF 002

billion (US\$303 million), the first NT\$5 billion of investment may not exceed 40% of the company's net worth, and the investment above NT\$5 billion may not exceed 30% of the net worth.

¶10. For projects with investment above NT\$10 billion, the limits shall be 40% of the net worth on the first NT\$5 billion, 30% of the net worth on investment NT\$5-10 billion, and 20% of the net worth on the part of investment above NT\$10 billion.

ASE Well below PRC Investment Limits

¶11. ASE is currently well under Taiwan's PRC investment limits. An FIC official told AIT/T that ASE's current investment in China is only about 10% of its net worth. ASE plans to increase its PRC investment, but its total investment including the planned additional investment will be only 14% of the net worth, still well below the 40% limit.

COMMENT

¶12. The Carlyle bid is part of a growing number of foreign investors using inexpensive local funding for merger and acquisition (M&A) in Taiwan. According to the FIC, Carlyle plans to use NT Dollar loans obtained from local banks to finance the ASE acquisition plan. In fact, Carlyle also used foreign currency loans obtained from local banks to fund its acquisition of Eastern Technology and Eastern TV earlier this year. Taiwan started earlier this year permitting foreign investors to use NTD loans obtained from local banks as a source of FDI in order to to reduce excess liquidity (reftel). It appears as though the measure is attracting foreign investors.

YOUNG